



AUDITOR - GENERAL
SOUTH AFRICA

The accounting officer
Blouberg Local Municipality
P O Box 1593
Senwabarwana
0790

Date 01 December 2017

Reference: 60052REG2016-2017

Dear Sir

Report of the Auditor-General on the financial statements and other legal and regulatory requirements of Blouberg local Municipality for the year ended 30 June 2017

1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act of South Africa read in conjunction with section 188 of the Constitution of the Republic of South Africa section 121(3) of the Municipal Finance Management Act of South Africa (MFMA)
2. We have not yet received the other information that will be included in the annual report with the audited financial statements and have thus not been able to establish whether there are any inconsistencies between this information and the audited financial statements and the reported performance against pre-determined objectives. You are requested to supply this information as soon as possible. Once this information is received it will be read and should any inconsistencies be identified these will be communicated to you and you will be requested to make the necessary corrections. Should the corrections not be made we will amend and reissue the audit report.
3. In terms of section 121(3) of the MFMA you are required to include the audit report in the Municipality's annual report to be tabled.
4. Until the annual report is tabled as required by section 127(2) of the MFMA the audit report is not a public document and should therefore be treated as confidential.
5. Prior to printing or copying the annual report which will include the audit report you are required to do the following:
 - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the financial statements and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.
 - The signature *Auditor-General* in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and the Auditor-General of South Africa's logo, should appear at the end of the report, as in the hard copy that is provided to you. The official logo will be made available to you in electronic format.

6. Please notify the undersigned Senior Manager well in advance of the date on which the annual report containing this audit report will be tabled.
7. Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely

Signed



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Report of the auditor-general of Blouberg Local Municipality

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Blouberg Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2017, and the statement of financial, statement of changes in net assets, cash flow statement and the statement of comparison of budget information with actual information for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the possible effects of the matters described in the basis of qualified opinion section of my report the financial statements present fairly, in all material respects, the financial position of the municipality as at 30 June 2017, and its financial performance and cash flows for the year then ended in accordance with South African standard of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and Division Of Revenue Act, 2016 (Act No.3 of 2016) (DORA).

Basis for qualified opinion

Vat receivables

3. I was unable to obtain sufficient appropriate audit evidence that VAT receivable amount for the current year had been properly accounted for, due to the status of the accounting records. I was unable to confirm VAT receivable amount by alternative means. Consequently, I was unable to determine whether adjustment relating to VAT receivables stated as R11 932 619 were necessary.

Revenue

4. I was unable to obtain sufficient appropriate audit evidence that revenue for the current year had been properly accounted for, due to the status of the accounting records for assessment rates. I was unable to obtain confirm total revenue amount by alternative means. Consequently, I was unable to determine whether adjustment relating to the total revenue amount stated as R25 064 827 was necessary.

Context for the opinion

5. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of my report.
6. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) together with the ethical requirements that are relevant to my audit in South Africa.

I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.

7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of matters

8. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Uncertainty relating to the future outcome of litigation

9. With reference to note 38 to the financial statements, the municipality is the defendant in claims. The municipality is opposing the claims. The ultimate outcome of the matters cannot presently be determined and no provision for any liability that may result has been made in the financial statements

Restatement of corresponding figures

10. As disclosed in note 40 to the financial statements, the corresponding figures for 30 June 2016 have been restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2017.

Irregular expenditure

11. As disclosed in note 46 to the financial statements, irregular expenditure to the amount of R51 471 936 was incurred, as result of improper tender process being followed.

Other matters

12. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited supplementary schedules

13. The supplementary information set out on pages xxx to xxx does not form part of the annual performance report and is presented as additional information. We have not audited these schedules and, accordingly, we do not express a conclusion thereon.

Unaudited disclosure notes

14. In terms of section 152 (2) (e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

Responsibilities of the Accounting officer for the financial statements

15. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with SA Standards of GRAP and the requirement of the MFMA and DORA and for such internal control as the accounting officer determines

is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

16. In preparing the financial statements, the accounting is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the accounting officer either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

17. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
18. A further description of my responsibilities for the audit of the financial statements is included in the annexure to the auditor's report.

Report on the audit of the annual performance report

Introduction and scope

19. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
20. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators/measures included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
21. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2017:

Development priorities	Pages in the annual performance report
KPA 1: Basic service delivery and infrastructure planning	x – x

KPA 2: Local economic development	x – x
KPA 3: Spatial rationale	x – x

22. I performed procedures to determine whether the reported performance information was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

23. I did not identify any material findings on the reliability and usefulness of the reported performance information for the following development priority:

- KPA 3: Spatial rationale

24. The material findings in respect of the usefulness and reliability of the selected objectives are as follows:

Development area KPA 1: Basic service delivery and infrastructure development

Various indicators

25. The reported achievements of the indicators listed below were misstated, as the evidence provided did not agree with the reported achievements as follows:

Performance indicator	Reported achievement	Audited value
% completion electrification of Aurora ext	103	5
% completion electrification of ward 03 Ext	78	28
% completion electrification of Witten	250	4
% completion electrification of sadu	204	40
% completion electrification of Aurora ext	135	88
No. of Sports Ground graded	60	0
% of implementation of an IWMP.	11	0
18544 households receiving weekly waste collection	18544	0
Senwabarwana Landfill site operating in line with the required standards	1	0
Taaibosch transfer station operating in line with the required standards	1	0
Provision of 2000 refuse bins to communities	2000	0
One park developed and maintained.	1	0
Number of Senwabarwana and Alldays graves numbered.	1	0
No of Awareness & Educational campaigns conducted	4	0

Development area KPA 2: Local Economic Development

KPI 1015 - Number of LED projects supported and sustained

26. KPI 105 reportable target states that, "number of LED projects supported and sustained". The performance target is **not specific** on how the projects will be supported. Support can take a wide range of definition. Thus, the nature and the required level of performance cannot be clearly identified.
27. Furthermore, the municipality reported that they supported local development by "installing Galvanized pump at Bosehla and drilled a borehole at Mmatemana" however management could not provide substantive evidence to validate the said support actually given to LED projects.

KPI 109 - No of Jobs created and sustained through implementation of Municipal Capital works programme by June 2016.

28. The description of the reported target states that the achievable target is based on the period ending 30 June 2016; however, the audited performance report relates to the period from 1 July 2016 to 30 June 2017. The performance target is not well defined and thus the reported target will not be useful to the reader of the annual performance information.

Other matters

29. I draw attention to the matters below.

Achievement of planned targets

30. Refer to the annual performance report on pages' x to x; x to x for information on the achievement of planned targets for the year and explanations provided for the under / overachievement of a number of targets. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 22; 25; 27,28 and 29 of this report.

Adjustment of material misstatements

31. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of economic development and basic services and infrastructure planning. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

Report on audit of compliance with legislation

Introduction and scope

32. In accordance with the PAA and the general notice issued in terms thereof I have a responsibility to report material findings on the compliance of the municipality with

specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

33. The material findings on compliance with specific matters in key legislations are as follows:

Annual financial statements, performance and annual reports

34. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA.

Material misstatements identified by the auditors in the submitted financial statements were not adequately corrected, with the result that the municipality obtained a qualified opinion

Procurement and contract management

35. Contracts were awarded to bidders based on points given for criteria that differed from those stipulated in the original invitation for bidding, in contravention of SCM regulations 21(b) and 28(1)(a) and the Preferential Procurement Regulations.

36. Bid documentation for procurement of commodities designated for local content and production, did not stipulate the minimum threshold for local production and content as required by Preferential Procurement Regulation 9(1). Similar non-compliance was also reported in the prior year

37. All of the commodities designated for local content and production, were procured from suppliers who did not submit a declaration on local production and content as required by Preferential Procurement Regulation 9(1). Similar non-compliance was also reported in the prior year.

38. Some of the commodities designated for local content and production, were procured from suppliers who did not meet the prescribed minimum threshold for local production and content, as required by Preferential Procurement Regulation 9(5). Similar non-compliance was also reported in the prior year.

Expenditure management

39. Effective steps were not taken to prevent irregular expenditure amounting to R51 471 936 as disclosed in note 46 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by the non-compliance that caused majority of the irregular expenditure.

40. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) / 99(2)(b) of the MFMA.

Consequence management

41. Losses resulting from unauthorised, irregular as well as fruitless expenditure were not recovered from the liable persons, as required by section 32(2) of the MFMA.

Revenue management

42. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.
43. Revenue due to the municipality was not calculated on a monthly basis, as required by section 64(2)(b) of the MFMA.

Assets management

44. An effective system of internal control for assets was not in place, as required by section 96(2)(b) of the MFMA.

Other information

45. The accounting officer is responsible for the other information. The other information does not include the financial statements, the auditor's report thereon and those selected development priorities presented in the annual performance report that have been specifically reported on in the auditor's report.
46. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
47. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected development priorities presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
48. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate, however, if it is corrected this will not be necessary.

Internal control deficiencies

49. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for opinion, [the findings on the annual of performance report and the findings on compliance with legislation included in this report.

Leadership

50. The accounting officer did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Financial and performance management

51. Management did not implement controls and process to ensure that the financial statements are free from material errors and the municipality is in compliance with the relevant laws and regulations.
52. The municipality did not develop an effective system which verified the accuracy, completeness and reliability of the reported performance contained in the annual performance report.

Auditor - General

Polokwane

30 November 2017



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general's responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected development priorities and on the municipality's compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in the auditor's report, I also:
 - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
 - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control.
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by accounting officer.
 - conclude on the appropriateness of the accounting officer's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Blouberg Local Municipality ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of the auditor's report. However, future events or conditions may cause a municipality to cease to continue as a going concern.
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other

matters that may reasonably be thought to have a bearing on my independence and here applicable, related safeguards.